

## The Colonial State And Business: The Policy Environment in Malaya in the Inter-War Years

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*The focus of the article is on the policy perspectives of the colonial state in Malaya vis-à-vis business, Western and Chinese. It touches on the policy outlook of the periods preceding the inter-war years before exploring various related topics (the question of industrial development, tariff policy, private sector initiatives) with a view to ascertaining the relationship between state and business.*

This article will focus on two main issues. The first concerns policy perspectives of the colonial state in Malaya *vis-à-vis* business, addressing the question of the relationship between the colonial state and Western and Chinese businesses. The second issue relates more specifically to the manufacturing sector. Why did Malaya not industrialise in the 1920s and 1930s, and to what extent was this the result of state policy? It is envisioned that the discussion of the second issue will throw some light on the first, more general subject. Since policy perspectives change over time, usually in response to new and different circumstances and conditions including changes in policy-makers, the article begins with the period preceding the inter-war era, which provides the background to subsequent developments.

### **Evolving relations between the colonial state and business**

Four periods with distinct policies can be discerned: 1874-1914, 1914-18, 1919-41 and 1946-57.<sup>1</sup> It should, however, be noted that although the discussion here relates to various watersheds in Peninsular Malaysian economic history, the periods follow the dividing lines in the international economy.<sup>2</sup> As I am essentially concentrating on the

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1 It can be argued that the colonial era actually comprises five periods. Some writers have adopted the time-frame of 1786-1920 as their span of coverage; see, for example, James C. Jackson, *Planters and Speculators, Chinese and European Agricultural Enterprise in Malaya, 1786-1921* (Kuala Lumpur: University of Malaya Press, 1968) and Robert N. Jackson, *Immigrant Labour and the Development of Malaya, 1786-1920* (Kuala Lumpur: Government Printing Office, 1961). By that reckoning there is a fifth period, 1786-1874, essentially the Straits Settlements era from its beginnings with the establishment of Penang. However, since the Straits Settlements represents a small area of Peninsula Malaysia in geographical terms, or 3 of the 12 components of the subsequent British Malaya, strictly speaking British control of Malaya begins from the following period.

2 Various books on the evolution of the global economy offer the following categories. The first is the long nineteenth century, 1820/30-1914, with the last quarter as the phase of 'High Imperialism' or 'New Imperialism' – a crucial sub-period, especially from the viewpoint of colonial territories. Next comes the First World War,

third period, the subsequent post-war phase before Malaya attained independence from Britain will not be addressed here.

#### 1874–1914

At the international level, the first period (1874–1914) has been seen as one of rapid growth, when international production and trade recorded unprecedented increases. Concomitant with changes in trade were world-wide movements in capital and labour together with the acquisition of territories, which have earned the epithet, the ‘New Imperialism’.

In Malaysia, this first period was the early phase of British expansion<sup>3</sup> beyond the port cities of the Straits Settlements, eventually extending their authority over the Peninsular states. (Although the British employed different instruments of control – the Straits Settlements as a Colony, direct rule in the Federated Malay States [FMS] and indirect rule in the Unfederated Malay States [UMS] – the whole area came to be known collectively as British Malaya.) As this period saw the rapid expansion of colonial rule all over the world, there was a relative shortage of British administrators and hence a greater willingness to work with various business groups in the development and expansion of the economy.<sup>4</sup>

In the case of Chinese business, the preferred mode of operation was to allow self-regulation. ‘To the British colonial government, merchants [of the Chinese community] as a class were desirable and useful since they could directly contribute to the growth and prosperity of the colonies.’<sup>5</sup> Besides, from the very start, since the establishment of the Straits Settlements, the British ‘had appointed headmen for the Chinese [and] Chooliahs ... and farmed out the collection of taxes to the highest bidder’.<sup>6</sup>

which ‘divided one economic era from another’, for it brought to an end the unprecedented expansion of the international economy (William Ashworth, *A Short History of the International Economy since 1850* [London: Longman, 1987], p. 226). The subsequent period, the inter-war years, was one of disintegration of the world economy (via protectionist policies) as contrasted with the nineteenth-century process of integration of many areas of the globe into the world economy. For more on the different phases of the international economy, see Ashworth, *Short History*; James Foreman-Peck, *A History of the World Economy, International Economic Relations since 1850* (Brighton: Harvester Wheatsheaf, 1995); and A. G. Kenwood and A. L. Lougheed, *The Growth of the International Economy, 1820-1990* (New York: Routledge, 1992).

3 See Ashworth, *Short History*; Ronald Hyam, *Britain's Imperial Century, 1815-1914: A Study of Empire and Expansion* (London: Batsford, 1976); and *Imperialism: The Robinson and Gallagher Controversy*, ed. W. Roger Louis (New York: New Viewpoints, 1976). Beginning in this period Britain faced fierce competition from new industrial nations. The British response was to switch from informal control to secure its commercial advantage to formal and direct rule via annexation of areas in contention. A detailed account of the British Empire in general can be found in Hyam, while a discussion with reference to Southeast Asia is available in Chris J. Dixon, *South East Asia in the World Economy* (Cambridge: Cambridge University Press, 1991), ch. 3.

4 As late as 1896, after approximately 20 years of colonial rule, there were still complaints about the ‘paucity of officials’ (Negri Sembilan, *Annual Report 1896*: 14): ‘The District Officers have a multiplicity of duties to perform, in addition to those of collectors of land revenue, and the staffs at their disposal are very small. The work of each district is largely carried out by the agency of native headmen...’ (Pahang, *Annual Report 1896*: 3). At any rate, the development philosophy of the Colonial Office ‘depended upon the belief that once the state had provided a framework of ordered government and a basic infrastructure, private entrepreneurs and private capital could be relied upon to initiate and carry out a steady programme of economic advance’; Michael Havinden and David Meredith, *Colonialism and Development: Britain and Her Tropical Colonies, 1850-1960* (London: Routledge, 1993), p. 91.

5 Yen Ching Hwang, *Community and Politics: The Chinese in Colonial Singapore and Malaysia* (Singapore: Times Academic Press, 1995), p. 9.

6 Victor Purcell, *The Chinese in Malaya* (Kuala Lumpur: Oxford University Press, 1967), p. 243.

With minimal expense and personnel, the British were able to ensure healthy revenues and effective management of the Chinese community. It is thus not surprising that there is evidence of active state encouragement of leading Chinese entrepreneurs such as Loke Yew, who could be relied upon to undertake new investments and to venture into relatively unpopulated regions.<sup>7</sup>

Another commentator on the Chinese in British Malaya has cited various accounts of their contribution to the development of the British territory. In his opinion:

From the early period of Raffles until the time of Sir Frank Swettenham, the British authorities always welcomed the Chinese. For example, in the Straits Settlements no legal distinction was made between Chinese, Malays and Europeans, who enjoyed equal rights and duties as citizens, as in voting, taxation and ownership of property. Influential Chinese often shared equal status with Europeans in local organisations, governmental committees and special committees...<sup>8</sup>

In the main, it could be said that the outlook of the colonial state towards business was relatively benign, facilitating where possible but also obstructive when there was a lack of disagreement (although this only became more obviously the case in subsequent periods). Such an approach would be in line with the foreign policy of the Victorian century which was usually supportive of commercial elements. There is a huge body of literature on the motives and causes of imperialism. Suffice it to note here that the backing of the British government for its mercantile community was relatively assured, notwithstanding other factors (political, strategic, etc.) which may have impinged upon policy-making. In fact, even when the strategic factor was dominant, the economic dimension was not ignored. In other words, the economic imperative was ever present and always under consideration together with other factors.<sup>9</sup>

The long-standing presence of the mercantile community since the establishment of Penang in 1786, Singapore in 1819 and eventually the Straits Settlements in 1826, and its prominence in Straits society, were duly acknowledged by the colonial state. Government consultations with the Chambers of Commerce, already in place in Penang and Singapore since 1837, were a regular occurrence.<sup>10</sup> It should be noted that Chinese

7 John Butcher, 'Loke Yew', in *The Rise and Fall of Revenue Farming, Business Elites and the Emergence of the Modern State in Southeast Asia*, ed. John Butcher and Howard Dick (New York: St. Martin's Press, 1993), pp. 255–7. Butcher describes revenue farming as a key institution which supplied the state funds to initially maintain itself and later expand.

8 Fukuda Shozo, *With Sweat and Abacus: Economic Roles of Southeast Asian Chinese on the Eve of World War II*, ed. George Hicks (Singapore: Select Books, 1995), p. 54.

9 '[G]lobal competition had a strong political dimension... [However,] decisions were not generally made at the expense of economic reason' (Hyam, *Britain's Imperial Century*, p. 104). For more on the primacy of Britain's economic interests, see Bernard Porter, *Britain, Europe and the World, 1850-1986: Delusions of Grandeur*, 2nd edn (London: Allen & Unwin, 1987) and P. J. Cain and A. J. Hopkins, *British Imperialism: Innovation and Expansion, 1688-1914* (London: Longman, 1993).

10 See, for instance, the views expressed in the Penang Chamber of Commerce in 1907: 'I think that all public bodies and the ratepayers recognise the claim of this Chamber to be the leading public body in Penang – and rightly so. This Chamber is the one body whose members enjoy the only franchise which is given to Penang – the election of a Member of the Legislative Council' (Penang Chamber of Commerce, *Report for the Year 1907*: 19). In addition, when extending the franchise to the Chamber, the Government 'indicated clearly that they were not to elect a member for the Chamber of Commerce but a *member for Penang* and not for the Chamber of Commerce alone' (p. 37, italics added). However, in spite of its prominent position, this does not necessarily mean that the state was always favourably disposed to every view expressed by the Chamber (Penang Chamber of Commerce, *Report for the Year 1912*: 3).

merchants in Penang were initially members of the Penang Chamber of Commerce before they formed a separate Chinese Chamber in 1903. Hence, until this parting of ways, the Chamber of Commerce was not an exclusively European body as is usually assumed. Up till the turn of the century, the common interests of a mercantile community, European and non-European, may well have over-riden considerations of differences in nationality among the business elites.

On another note, it has to be recognised that the colonial state could sometimes be at odds with business. Although a major thrust of British foreign policy was to maintain Britain's leading economic position, there was also a rise of service-oriented bureaucrats who were imbued with a sense of trusteeship *vis-à-vis* the colonial peoples they were ruling. This trusteeship element was especially evident in British Malaya, particularly when up against concession seekers, with an innate distrust of the latter's motives.<sup>11</sup>

During this period, then, one could say that there was fairly favourable treatment of business, whether Western or Chinese. Nonetheless, under the general rubric of a colonial state, supportive of business, further research is necessary before possible differences in treatment of Western versus Chinese business can be established. If there were disparities, what were they and on what basis was differential treatment justified by the colonial authorities? For, rather than accepting at face value the colonial position that the free trade policy was meant to guarantee a level playing field, a detailed investigation may reveal a more ambivalent attitude. On the one hand, the colonial state valued the industrious Chinese coolie and promoted the immigration of Chinese labour up till the turn of the century; on the other hand, it sought to control their organisations, especially the secret societies seen as threats to British power.<sup>12</sup>

#### 1914–1918

The second period, 1914–18, was marked by the First World War and its impact on the British colonial empire in general and on Malaya in particular. Responses to war conditioned policy choices. There are, however, those who see the First World War in a different light, viewing it as a 'natural break', the conclusion of the era of bourgeois liberalism and its free trade doctrines, already under siege since the emergence of new industrial powers in the last quarter of the nineteenth century.<sup>13</sup> While the war merely confirmed the undermining of the old liberal international economic order, heralding a

11 Keith Sinclair, 'Hobson and Lenin in Johore: Colonial Office Policy Towards British Concessionaires and Investors, 1878-1907', *Modern Asian Studies*, 1, 4 (1967): 335-52. Cain and Hopkins, *British Imperialism*, have coined the term 'gentlemanly elite' to describe these imperial rulers who emerged when the British Empire annexed territories during the New Imperialism era. They had a 'Dual Mandate' to fulfil: besides their duty of safeguarding British interests, they also saw themselves as responsible for the well-being of the colonial peoples under their care. Their paternalism translated into suspicion of the 'sordid profit-making' of concession hunters and into checking the unbridled capitalism of their own countrymen (Stephen Constantine, *The Making of British Colonial Development Policy, 1914-1940* [London: Frank Cass, 1984], p. 18).

12 Carl Trocki, *Opium and Empire, Chinese Society in Colonial Singapore, 1800-1910* (Ithaca: Cornell University Press, 1990), pp. 20-3, discusses the secret societies; on coolie labour, see FMS, *Annual Report 1902: 2*.

13 The phrase 'natural break' is from Eric J. Hobsbawm, *The Age of Empire, 1875-1914* (London: Sphere Books, 1989), p. 6. It is generally accepted that the period of 'New Imperialism' beginning from the last quarter of the nineteenth century reflected intense competition among the various Western industrial powers. While there may be less consensus as to the actual nature of the economic problems confronting the international economic system, it has been acknowledged that the expansion process of the world economy was not all smooth sailing, as demonstrated by the depressions of 1873 and 1893, the slump of 1882-84 and the trade cycles of 1875-90. See also the comment by Foreman-Peck: 'Whether or not the pre-1914 trading system would have been maintained

new economic regime, it also directly generated certain changes.

For some, changes were inevitable in response to the new conditions. The most obvious impact on many British colonies was the disruption of transport links with war-torn Europe and hence of imports of European goods, as well as reduced demand for colonial products. The latter resulted from Britain's shift from production of its 'normal' range of manufactured goods to war-related products. This fall in demand for colonial primary commodities did not improve after the war, prompting a number of measures to address this new situation, among them the Colonial Development Act of 1929 and the commodity restriction schemes of the 1920s and 1930s.

In the interim, before major policy initiatives were introduced after the war, British colonies had to adapt to reduced supplies and decreased revenues in the face of falling export sales and depressed prices. The approach of the colonial state in British Malaya was to maintain a holding pattern, awaiting the return to earlier pre-1914 growth, based on very narrow specialisation.<sup>14</sup> This kind of strategy was to be repeated in the subsequent period.

The war fostered nationalistic reactions, including protectionist stances in economic matters and particularly in trade. Britain's imperial sentiments were strengthened and eventually manifested in the call 'to consider the practicability of preferential rates for goods of imperial origin' in 1920, strongly promoted by the 'New Imperialist' component in the Lloyd George coalition government of 1916.<sup>15</sup> Thus, although Imperial Preference has usually been associated with the Ottawa Agreement of 1932 and with the 1930s world Depression, the First World War had already breached the free trade framework of the late nineteenth century. No longer were the virtues of competition and open economies associated with free trade extolled; the war resulted in a change in perceptions whereby competitors were viewed in a more adversarial fashion.

Nationalistic inclinations in Malaya reared their head as the treatment of non-British and particularly German business reversed previous dealings since the mid-nineteenth century. The enemy, of course, merited special attention, and German companies were not allowed to continue their operations; this approach conveniently dealt with a competitor whose strength had already been keenly felt. In Malaya, the 'German bogey' had been raised as early as the 1870s as one of the many arguments in favour of the extension of British control beyond the Straits Settlements into the peninsula.<sup>16</sup>

if there had been no world war, it is fairly certain that the peace settlement exacerbated *already existing problems of international economic relations...*' (Foreman-Peck, *History of the World Economy*, p. 219, italics added, and p. 187 on problems before 1914).

14 Customs duties were the main source of governmental revenue in most British colonies (Havinden and Meredith, *Colonialism and Development*, p. 64. See p. 115 on the decline in government revenues with the onset of the First World War). The commitment of the colonial state to its key industries of rubber and tin was never in doubt: 'It was decided that assistance must be given to the mining community and also to the planting community, the assistance being given by purchasing tin and granting advances against rubber, the money for this purpose being advanced by the Straits Government' (FMS, *Annual Report 1914*: 30).

15 Frederick V. Meyer, *Britain's Colonies in World Trade* (London: Oxford University Press, 1948), p. 10. With reference to the imperialists in the new government, their 'appeals to the nation had been rejected in the general election of 1906, but [they] were now in a position to attempt to create a greater degree of imperial economic cohesion ... The twin pillars of their economic policy were a common imperial tariff structure and the concentration of resources on empire economic development' (Havinden and Meredith, *Colonialism and Development*, p. 133).

Even earlier, signs of change in the treatment of Chinese business became evident in the relations of the authorities with revenue farmers. This had less to do with the war than with the evolution of the administrative apparatus, reducing the necessity of reliance on private sector management of economic affairs. For instance, in 1897 a Secretary for Chinese Affairs was appointed as 'hitherto, the Government [has been] content to carry on its intercourse with its Chinese subjects through Chinese headmen, but, however simple this system may be, it cannot be called satisfactory'.<sup>17</sup> Increased state capacity allowed colonial governments to dispense with farms and run opium regimes directly, capturing more of the income they generated. Thus, the alliance between a weak state and the Chinese business elite for tax collection and enforcement was but a transitory phenomenon, until the state developed the capability to handle those functions.<sup>18</sup>

In addition, we must not discount the role of other factors in the abolition in 1910 of opium farming, the most lucrative component of the revenue farm system – factors such as the rise of the Anti-Opium Movement among Chinese immigrants as well as internationally and in Britain.<sup>19</sup> Nonetheless, the withering away of revenue farming marked a loosening of ties between the colonial state and Chinese business. Unlike earlier acknowledgements of the economic contribution of the Chinese in the Annual Reports from the various components of Malaya, less and less mention was made of the Chinese role in the development of the economy from this period.<sup>20</sup>

#### Inter-war years

The third period, the inter-war years, was one of great upheaval globally which required new approaches to deal with the economic changes in the world economy. British Malaya was also obliged to respond to external developments and not just focus on domestic economic improvements. First, there came a reversal of the previously highly profitable returns from its main primary exports of rubber and tin. Secondly, Malaya had to take into account the principles laid down by the Secretary of State for the Colonies with regard to the general economic and commercial policy of the British colonial empire when designing policies suitable to local conditions.<sup>21</sup>

As noted above, the new policies adopted for the British Empire were Imperial Preference and a new Colonial Development programme, while Malaya's solution for

16 The following articles provide some light on this issue: K. G. Tregonning, 'How Germany Made Malaya British', *Asian Studies*, 2, 2 (1964): 180-7; and Ernest Chew, 'The Reasons for British Intervention in Malaya', *Journal of the Malaysian Branch of the Royal Asiatic Society*, 39, 1 (1966): 52-91. Wartime legislation included the Trading with the Enemy Enactment of 1914 and the Alien Enemies (Winding Up) Enactment of 1915.

17 FMS, *Annual Report 1897*: 5. See also the following comment from the FMS, *Annual Report 1906*: 'In the old days when the Government was very little in touch with the Chinese these [secret] societies were of the greatest value to ignorant coolies; their disappearance is chiefly due to improvements in the Police Force and in administration generally which have rendered it far less necessary for the ordinary Chinaman to have a powerful friend in need' (p. 6).

18 Butcher and Dick, *Rise and Fall of Revenue Farming*, p. 8.

19 Yen, *Community and Politics*, ch. 5, provides more details on the Anti-Opium Movement as well as on opium farming as a major source of government revenue.

20 The following is an example of this sentiment, expressed in various Annual Reports: 'The industrial population of the state consists so very largely of Chinese, and the commercial prosperity of the country is so peculiarly dependent upon their exertions, that the number of arrivals of this nationality as compared with the departures is a matter for serious consideration' (Selangor, *Annual Report 1897*: 20).

21 Meyer, *Britain's Colonies*, pp. 5-6.

excess supply of its principal export commodities was the restriction scheme. Imperial Preference and restriction schemes signalled a retreat from the free trade policy, but the latter was not entirely jettisoned; it lingered on, albeit in altered form. As for colonial development, it will be shown below that the pre-1914 development strategy of establishing an export economy in the colonial territories continued with minor adaptations. This was despite the fact that since the First World War, the appropriateness of a strategy which placed such heavy reliance on a few primary product exports had been called into question.

The general approach of the administration in Malaya towards colonial development was a preference for maintaining the primary commodity economic structure. The only modification entertained was to broaden the base to consider other primary commodities besides rubber and tin. Even though it was acknowledged that 'the Peninsula imports much that it may itself produce',<sup>22</sup> the colonial government was not particularly sympathetic to initiatives to start new industries. Whether this was because the colonial officials were essentially sympathetic to the Board of Trade approach (with priority to be accorded to UK industries with the promotion of their exports over colonial production) or whether it was due to the paternalistic desire to preserve indigenous institutions,<sup>23</sup> the end result was that there was comparatively little government support for industrial development.

There is yet another factor which merits consideration. Various writers have highlighted the financial importance of Malaya in terms of its contribution to the Sterling Bloc. 'During the inter-war period rubber was the largest single US dollar-earning export of the sterling area';<sup>24</sup> tin was an equally important source of foreign exchange. Continued state promotion of these key commodities stands to reason, with the corollary of a comparative lack of enthusiasm for industrial development since support for the latter could very well erode concentration on primary commodity production and thus reduce foreign exchange profits.

In the next section, a more extensive discussion of the issue of industrial development will follow, exploring the state's response to proposals from business, both Western and Chinese.

### **The policy environment in the inter-war years**

To recapitulate, the discussion on changing policies during the colonial era began with the Victorian and Imperial Century, when the principal imperative was to safeguard Britain's position in the liberal world economy. This was embodied in the free trade policy and concomitant free competition, resulting in an international division of labour

22 FMS, *Annual Report 1932*: 93.

23 The service-oriented gentlemanly elite 'tended to stress the "welfare" arguments for slower development or none at all' (Havinden and Meredith, *Colonialism and Development*, p. 138). In Malaya, local colonial officials viewed development in terms of moving away from traditional subsistence rice cultivation to production of commercial crops. For more on the latter, see Lim Teck Ghee, *Peasants and their Agricultural Economy in Colonial Malaya, 1874-1941* (Kuala Lumpur: Oxford University Press, 1977).

24 Martin Rudner, 'Rubber Strategy for Post-war Malaya, 1945-48', *Journal of Southeast Asian Studies*, 1, 1 (1970): 23. See also Peter Bauer, *The Rubber Industry: A Study in Competition and Monopoly* (London: Longman, 1948); and Nicholas White, 'Gentlemanly Capitalism and Empire in the Twentieth Century: the Forgotten Case of Malaya, 1914-1965', in *Gentlemanly Capitalism and British Imperialism: the New Debate on Empire*, ed. Raymond E. Dumett (New York: Longman, 1999), pp. 175-95.

whereby different parts of the world economy specialised in what they were deemed most efficient in producing. As a result, most British colonies concentrated on raw materials and the metropolitan power on manufactured goods. The impact of this 'complementary economics' strategy, which fitted in well with the requirements of the British economy, is well-documented for many colonies.<sup>25</sup>

The first signs that such a policy might have its shortcomings came with the First World War, when orderly expansion of the international economy was no longer in the cards given a depressed demand for primary commodities. The concept of 'complementary economics' ceased being the obvious strategy to espouse. However, no policy changes were contemplated either in London or in Malaya during the First World War and in the subsequent period. During the inter-war years, the nationalistic tendencies stimulated in wartime remained strong, as illustrated by the policy of Imperial Preference. The vision of development advocated by the new imperialists or 'imperial visionaries' was actually misleading. If their main objective was to benefit Britain above all else, this implicitly challenged the other strand in British colonial thinking, the trusteeship principle. Any new project to be considered was to be based on the 'more or less unwritten rule that any proposals, whether in the field of industry or tariffs, which give rise to any conflict of economic interest, should be approached from the standpoint that British trade interests must rank first, Dominion trade interests second, and those of the Colonial Empire last'.<sup>26</sup> The 'Dual Mandate' – which acknowledged the dual responsibility of the colonial bureaucrats to serve the interests of Britain as well as those of the colonial population – was not easy to implement when the question of priorities arose. The tension between these two contradictory goals partly explains the relative lack of development attained under the colonial development programme.

This review of policy outlook in the three periods has outlined the view from London which the colonial governments had to contend with when designing policies for their territories. As noted above, colonial governments could argue for variations of the Colonial Office position but they remained essentially bound by directives from London. What was, in fact, the situation in British Malaya in the inter-war years? Not surprisingly, these two perspectives emanating from London (Britain First, Colonies Last and Trusteeship) had their counterparts in the thinking of colonial administrators in Malaya. The 'complementary economics' approach was implemented there in the form of continued promotion of an economy based on the export of raw materials, even in the face of uncertain market prospects. As revenue from tin and then rubber (from 1906) had long been the mainstay of the economy, it is to be expected that the mindset favouring the encouragement and support of these two key industries prevailed over any thinking about reducing over-dependence on primary commodities. In other words, the notions of 'complementary economics' and 'export economies' were two sides of the same coin.

25 Joseph Chamberlain, Colonial Secretary between 1895 and 1903, was the first to put forward this concept as part of his vision of preserving Britain's status as a great power based on the British Empire as a single economic unit (Porter, *Britain, Europe and the World*, p. 91). In other words, his desire to develop the colonies was aimed at strengthening all components of the Empire, which would ultimately strengthen Britain, the imperial power.

26 Havinden and Meredith, *Colonial Development*, p. 172.



The trusteeship imperative was overruled when British interests demanded Imperial Preference against Japanese competition in the 1930s. Protection of British manufacturers prevailed over objections raised in the colonial legislatures that tariffs levied on basic necessities such as textiles would impose hardship on consumers in the colonial territories. The Colonial Office in London was quite clear which of the two responsibilities took precedence, whereas the various colonial governments remained true to the trusteeship principle. However, diversification not just away from reliance on tin and rubber to other commercial crops, but towards manufactured products, was not seriously considered. Trusteeship was clouded by the paternalistic notion of gradual development, meant to enable the indigenous populations to retain their traditional ways of life.

The severity of Malaya's vulnerability to external market forces became abundantly clear during the 1930s Depression. A dramatic drop in public revenue was directly related to the collapse of the tin and rubber markets, necessitating the curtailment of existing government expenditures and the shelving of new projects. What is surprising is that even with these significant reversals in the fortunes of Malaya's principal industries (already clear since the First World War and recession in the early 1920s) and in the face of efforts towards structural transformations in the Dominions and other Southeast Asian territories as well as some degree of awareness among senior colonial officials of the imbalance between the primary and secondary sectors, there were no serious reassessments as to the soundness of maintaining a primary commodity export economy.<sup>27</sup> E.L. Brockman, Chief Secretary in the FMS for nine years, before his retirement in 1920, had proposed that an Industrial Development Board be set up. In his minute to the High Commissioner, he noted,

We have from time to time applications for assistance from Government in establishing new industries in the FMS and developing existing ones and we do not seem to get much forwarder talking and writing.... I recommend the establishment of a Department Board with a capital to commence with of say 5 million dollars somewhat on the same lines as the Planters Loan Board. Their powers should be defined by an Enactment and their Commissioners should receive remuneration for their services.<sup>28</sup>

Although the High Commissioner's response was positive, asking for a Memorandum to be prepared on this matter, nothing appears to have transpired after that. The question of industrial development and diversification away from excessive dependence on primary production will be further examined below. A review of

27 Budgetary curtailments are discussed in FMS, *Federal Council Proceedings 1930*, C441–C443. More details on the policy responses in the Dominions can be found in William Hancock, *Survey of British Commonwealth Affairs*, vol. II, *Problems of Economic Policy, 1918–1939* (Oxford: Oxford University Press, 1942); those of the Dutch in the Indies and the Americans in the Philippines are available in Rajeswary Brown, *Capital and Entrepreneurship in South-East Asia* (New York: St. Martin's Press, 1994).

28 High Commissioner's Office 1973/1918, National Archives, Kuala Lumpur. See also the following from the FMS *Annual Report 1932*: 'The decline in trade and revenue, consequent upon the world-wide depression and over-production of rubber and tin, continued throughout the year ... The future prosperity of the Federation depends on the achievement of economies in administration and on a widening of its industrial basis; the easy wealth that has accrued in the past from tin and rubber induced a concentration of vision and efforts on these two commodities to the exclusion of others, with the result that the Peninsula imports much that it may itself produce' (p. 93).

state–business interaction and of state response to business initiatives should provide a picture of the prevailing official mindset in Malaya, the policy environment with which the Western and Chinese business communities had to contend.

#### **Industrial development and tariff policy**

The Straits Settlements Trade Commission formed to enquire into the trade of the Colony in 1933–34 sought the views of business and professional groups on a whole range of subjects. Among the types of measures proposed for industrial development were protection in the form of tariffs and reduction in the rates of various utilities as well as assessment rates. It appeared that both Western and Chinese business shared the same concerns, forwarding similar types of requests for governmental intervention.

The topic of protection serves to illustrate the overlapping interests of European and Chinese business. Francis Graham, one of the founder members of the Singapore Manufacturers' Association when it was established in 1932, was of the view that 'there are many manufactures which one can start with a capital of \$20,000 and those, I think, are well worthwhile in a country of this size, that is if there were some protection.'<sup>29</sup> A similar sentiment was expressed by A.R. Holden, Managing Director of the Straits Manufacturing Company, who had ventured into the manufacture of toothpaste after observing that the trade in toothpaste and powder for Malaya in 1932 amounted to a relatively attractive figure of about \$400,000. 'Business', he said, 'would be considerably helped if a duty could be imposed on foreign toothpaste ... As things are there is no inducement to local manufacturers or manufacturers anywhere to start manufacturing in the Straits.'<sup>30</sup>

The firm of Lee Kim Soo with three match factories – one each in Singapore, Klang and Johore – would also benefit from a policy of protection in the Straits Settlements. As there were import duties in the FMS and Johore, there were no problems regarding sales for those domestic markets. However, the exportable surpluses of these factories could not compete with Japanese matches in Singapore or Penang, which maintained their free port status. An additional complication for this firm was that its Singapore factory could not sustain itself and had to be closed down when Johore imposed import duties. Thus, Chin Chye Fong, assistant to Lee Kim Soo, argued for 'more encouragement to local industry by giving some protection against foreign competition'.<sup>31</sup> Tan Kah Kee – also up against Japanese competition selling rubber shoes in the domestic market, the Dutch East Indies and Siam – described the difficulties his company encountered in China, the Philippines and Indochina due to tariff policies in those countries. His request paralleled others: 'Without import duties manufacturers will not go very far.'<sup>32</sup>

An earlier request for protection came from a group of Chinese merchants from Penang who intended to establish weaving factories in principal towns in the FMS for the manufacture of textile products. Although the official reason given for refusal could well have been the most important grounds for the decision, namely that 'it would be a tax

29 *Report of the Commission Appointed by His Excellency the Governor of the Straits Settlements to Inquire into and Report on the Trade of the Colony, 1933–34* (Singapore: Government Printing Office, 1934) (henceforth SSTC), vol. II, pp. 286–7.

30 *Ibid.*, p. 927.

31 *Ibid.*, p. 734.

32 *Ibid.*, p. 311.

on clothing [which is] a necessity of life', another factor, considered but not mentioned for public consumption, might also have had some bearing on the decision. Advice supplied to the High Commissioner to the effect that protection for this new industry would not be well-received made reference to 'great opposition, not only from people in this Country but also from British manufacturers'.<sup>33</sup> It would appear then that a mixture of reasons played their part in the final decision. While the 'Dual Mandate' may have been fulfilled, it was a rather reluctant trusteeship, unwilling to go all the way for a more balanced development for the colonial subjects.

In place of a more systematic study of tariff policy, the position of the colonial state regarding the concept of a customs union can shed some light on their response to the question of protective import duties. The colonial government toyed with the idea of a customs union since there were as many as seven separate administrations in British Malaya – the Straits Settlements, the FMS and the five Unfederated Malay States (hereafter UMS) of Kedah, Perlis, Kelantan, Trengganu and Johore. Notwithstanding the non-economic rationale behind this idea, namely a more efficient and unified administration, a customs union would reduce the number of tax regimes any businessman had to deal with when considering the Malayan domestic market.<sup>34</sup> The decision eventually reached rejected the customs union on many grounds, including the fact that the Straits ports relied on their free port status for the thriving entrepot trade, responsible for a significant portion of their commerce. The implication of that decision was that there would be a variety of customs duties in the FMS and UMS, while the Colony continued its free trade policy. Again, other factors – this time broader political concerns – intruded to the detriment of industrial development.

While the examples cited here include opinions of those inclined towards manufacturing ventures, it should also be acknowledged that others expressed reservations as well regarding the small size of the market, deemed inadequate to provide economies of scale and promising returns.<sup>35</sup> Nonetheless, F. H. Grumitt, proprietor of the *Straits Echo*, advanced the view that 'while at present local industry is not a big factor, it cannot be doubted that the establishment of a Customs Union will act as an incentive to the development of local industry and the importance of this point cannot be too emphasised'.<sup>36</sup>

#### **Singapore Manufacturers' Association (SMA)**

As noted by the Chief Secretary of the FMS in the 1932 Annual Report, 'the easy wealth' from tin and rubber had resulted in a focus on these two commodities to the neglect of other products. However, when faced with prospects of favourable returns on locally produced manufactured products during periods of lower profits and reduced foreign exchange earnings from tin and rubber for purchases of imported goods, the private sector was not idle. This was probably of relevance during the First World War and its aftermath, when prices for raw material exports had not yet returned to their pre-war levels, because of the 1920-22 rubber slump and the early years of the Depression of

33 High Commissioner's Office (HCO) files lodged at the National Archives, Kuala Lumpur, HCO 1579/1919.

34 Constance Mary Turnbull, *A Short History of Malaysia, Singapore and Brunei* (Singapore: Graham Brash, 1980), pp. 204-5.

35 *SSTC*, vol. II, p. 467.

36 *Ibid.*, vol. IV, p. 177.

1929-33. In other words, whenever conditions militated against primary commodities, when the comparative advantage of specialising in the export production of tin and rubber no longer applied, alternative economic activities began to look attractive.

A report after a visit to Malaya by a Ministry of Supply Mission to India in December 1940 and January 1941 collected a list of members of the Singapore Manufacturers Association.<sup>37</sup> This provides evidence of local involvement in manufacturing beyond the raw material processing industries noted in various studies (see Appendix 1). One such study is the recently translated work of Japanese economist Fukuda Shozo on the economic role of the Chinese in Southeast Asia before the Second World War. In his survey of the range of Chinese participation in the economy of Malaya before the 1930s, he found that 'it may even be said that up to the World Economic Depression, no form of economic activity in Malaya was possible without [the Chinese]'. His positive assessment of the strength of Chinese enterprise in Malaya after the Depression is still valid as 'although their role in Asia has been somewhat contracted, they remain indispensable'.<sup>38</sup> For instance, pineapple canning remained a monopoly of the Chinese; the production of coconut oil and tapioca, and rice milling, were in their hands, while they had recently developed machine and ironworks industries. Thus, besides the usual emphasis on primary production and processing, Fukuda also mentions 'a trend to mechanisation in fields which the Overseas Chinese tended to neglect in the past'.<sup>39</sup> When viewed together with the SMA membership data, this gives the impression that there was more than just rubber processing, tin smelting, the milling of rice and coconuts and pineapple canning, indicating that business in pre-war Malaya had begun to actively explore manufacturing possibilities.

Despite the Association's nomenclature, its members were not confined to Singapore, but were also located in various urban centres of Malaya. As much as 32 per cent of its membership came from various towns in Malaya; approximately half the firms were Chinese. The possibility of others involved in manufacturing but not registered as members of the SMA is worthy of investigation. After all, as this organisation was based in Singapore, some may have felt that it was inconvenient to travel such a distance to attend meetings of the Association. We may well find, after subsequent research, that the figure of 35 companies for Malaya is an understatement of existing industry in the early 1930s.

In addition, among some of the successful ventures identified for the 1930s by the Inter-Departmental Committee on the Industrial Development of the Colonial Empire set up in the Colonial Office in 1937 were the pineapple canning industry in Malaya as well as rubber tyre and rubber shoe industries in Singapore.<sup>40</sup> In other words, there existed manufacturing beyond just raw material processing, which had emerged without a clear policy supporting such industrial development. The question of interest here is whether there could have been much more with sufficient government support and assistance.

37 Public Record Office, CO 852/501/7.

38 Fukuda, *With Sweat and Abacus*, pp. 62, 72.

39 *Ibid.*, p. 77.

40 PRO, CO 852/105/7.

### Some issues for consideration

As research is ongoing and by no means near completion, what remains are matters as yet unresolved. Thus, in lieu of a conclusion, two items have been identified as requiring attention. The major issue for further examination is to ascertain whether the colonial government in Malaya constituted a major restraint to industrialisation or, alternatively, whether business was able to proceed in spite of the lack of government support and perhaps even in the face of administrative obstruction or policy constraints.

Another question which arises from an initial look at the Malayan scene is the extent of collaboration between Western and Chinese business. While the focus has traditionally been on ethnicity and notwithstanding the social bases for such categorisations, an alternative line of investigation may yield new insights. The suggestion here is to consider joint ventures between British and Chinese business as well as the symbiotic relationship between the two ethnic groups in the major economic activities. That is to say, although one can quite easily identify British and Chinese companies in terms of ownership and control, past observers have also noted cooperation between the two groups. Another way of looking at the latter relationship is to establish the degree of interdependence which might have obtained. In other words, each had specific functions to fulfil, requiring the other party to complement the activities undertaken by a particular business community.<sup>41</sup> Instead of the usual depiction of the British–Chinese relationship in terms of one party as the principal and the other as the subordinate, it might be more accurate (in certain cases) and also useful to consider the alternative, that theirs was a partnership, each drawing on the resources of the other. The *caveat* here is that overlapping and complementary interests of Western and Chinese entrepreneurs cannot be expected to exist in all areas of business where it is more usual to find that competition prevails. Nonetheless, since the merger as a business device to enhance the competitiveness of a firm is an eminently acceptable strategy with a long tradition, it is likely that this may prove to be a fruitful line of inquiry.

41 A clear example is the produce trade where Chinese firms import from the surrounding region and the European firms export the produce they purchase from the Chinese (SSTC, vol. II, pp. 85, 356, 409). W.G. Huff provides the evidence for complementary Sino-European commercial relations from the Singapore case (W. G. Huff, *The Economic Growth of Singapore: Trade and Development in the Twentieth Century* [Cambridge: Cambridge University Press, 1994]). See also Heather Sutherland, 'Believing is Seeing: Perspectives on Political Power and Economic Activities in the Malay World, 1700-1940', *Journal of Southeast Asian Studies*, 26, 1 (1995): 145.

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**Appendix 1: Members of the Singapore Manufacturers' Association, 1940**


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Manufacturing Type	Singapore	Malaya	Location in Malaya
Aluminium Ware	1	–	
Battery Manufacturers	2	–	
Bedsteads (metal)	1	–	
Boiler Makers	2	–	
Boot & Shoe Manufacturers	2	2	Klang, Penang
Brass and Iron Founders	2	5	Ipoh, Kuala Lumpur
Brewery	2	1	Ipoh
Brick & Tile Manufacturers	3	4	Province Wellesley, Kuala Kangsar & Kuala Lumpur
Distillers	–	1	Ipoh
Electro-Platers	2	2	Kuala Lumpur
Furniture Manufacturers	7	–	
Glycerine Manufacturers	1	–	
Insecticide and Disinfectants	2	–	
Match Manufacturers	1	1	Teluk Anson
Metal Spray (Zinc, Brass, Copper, etc.)	1	–	
Metal Workers	1	–	
Mineral Waters	4	–	
Metal Polish	1	–	
Vegetable Oil Millers	2	6	Penang, Malacca & Kuala Lumpur
Plastics	1	–	
Paint Manufacturers	2	–	
Concrete Pipe Manufacturers	2	2	Ipoh, Kuala Lumpur
Pipe (Earthenware)	1	2	Malacca, Kuala Lumpur
Potteries Manufacturers	1	1	Penang
Rattan Goods Manufacturers	1	–	
Rubber Goods Manufacturers	3	3	Kuala Lumpur, Klang & Ipoh
Sail Makers	2	–	
Saw Millers	5	3	Penang, Klang
Soap Manufacturers (Household)	3	2	Penang, Ipoh
Soap (Toilet)	1	–	
Steel Drum Manufacturers	2	–	
Steel Factory	1	–	
Steel Pipe Manufacturers	2	–	
Steel (Tabular goods)	1	–	
Steel Trunks Manufacturers	2	–	
Tile Manufacturers	4	–	
Welders (Oxg. acetylene)	4	–	
	75	35	

*Source:* Public Record Office, CO852/501/7, Ministry of Supply Mission to India, Report on Visit to Malaya, December 1940 – January 1941.

*Note:* Member firms consist of both Western and Chinese companies.